

City Manager's Budget Message

Fiscal Year 2006

August 1, 2005

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

SUBJECT: Fiscal Year 2006 Proposed Budget

I. Introduction

Transmitted herewith is the Proposed City Budget for Fiscal Year 2006 (FY 06), which begins on October 1, 2005. Months of intense effort by management and staff, working with the Mayor and City Council, the City Council's Budget Oversight Committee and the community, went into the development of this budget. This inclusive process culminated in a proposed budget that stays true to the objectives of, and is built upon the recommendations in, the City's Financial Strategic Plan (Plan). A preview of the FY 06 Proposed Budget was presented to the City Council on June 21, 2005, and was explored in further detail with the community at the July 9, 2005 *Budget Summit III: Community Voices and Budget Choices* workshop. In accordance with the Plan, the FY 06 Proposed Budget continues to focus the organization on needed optimization and efficiency efforts, operational and staffing cost reductions, the deliberative use of increased fees to recover costs, and a reduced reliance on one-time resources.

Creating an environment in which the entire Long Beach community can live healthy, safe and secure lives should be the overarching purpose of every City employee. On a daily basis, through the myriad programs and services provided through the City and its partners, this outcome provides a constant vision of our mission as stewards of the public's trust and resources. Recent challenges, including those related to violent crimes, the deterioration of our streets and infrastructure, and the City's structural deficit, have made the City focus its resources around a more narrow set of programs and services and has required many difficult funding and service delivery decisions over the past two years.

We have made unprecedented progress since the Plan was first adopted, and remain fully committed to eliminating the City's structural deficit in a fair and balanced way. The City's effort to achieve fiscal sustainability would not have been possible without the unwavering vision and leadership from the Mayor and City Council, and the inexhaustible efforts of the City Council's Budget Oversight Committee. It is very difficult to make the hard budget decisions that lead to reductions in services and programs. I believe it is particularly difficult for elected officials, because they are subjected to the accountability of the electorate, which typically prefers to see its services increased, not reduced.

It appears that the foreshadowing and advice given by the City's outside Budget Advisor Len Wood on July 1, 2003 in his report *City of Long Beach: Evaluation of Financial Condition*, have proven accurate:

"Experiences in other cities indicate the Long Beach City Council and staff will endure very trying years of budget workshops and hearings. In order to bring the budget back into structural balance, it will be necessary to make hundreds of painful decisions. There are no easy remedies and each decision will infuriate one or more interest groups. At each decision point, individuals and groups that will bring intense pressure to preserve their interests will fill the council chambers. Pleas, tears, requests and threats will be used and the pressure will be unrelenting."

Our Mayor and City Council have indeed weathered the pressure and continually made the difficult decisions for the betterment of the entire community. With this manifest resolve, it is imperative that we continue to make the hard choices to position the City and the community for the future. As we reduce City costs to address the structural deficit, we cannot ignore critical City priorities requiring investment. The use of natural revenue growth to restore Plan-impacted services must be deferred several years to address public safety and critical infrastructure needs. Projected revenue growth must be directed for the next few years to address these two core areas. In addition, we cannot ignore employee compensation issues indefinitely. Maintaining a quality workforce and attracting talent to the City of Long Beach is essential to developing a high-performance organization. Police and Fire employees have not had a salary adjustment since 2001 and non-safety unions since 2003. Therefore, we must factor cost increases in these areas as we plan for the City's future.

It has been said that positive change does not often occur in good times; rather it is during a crisis that we rise to life's challenges and make the needed changes to thrive. Therefore it is critical that we continue to use our current budgetary environment in a creative and opportune manner to make the decisions required by the Plan, evolve the organization toward continual optimization and embrace performance management as the three main avenues by which we position ourselves for the future.

- Adhere to the Plan's Objectives

The City must become financially sustainable; adhering to the fiscal discipline established by leadership through the Financial Strategic Plan and the Mayor and City Council's Financial Policies. A key element to fiscal sustainability is providing the resources to make the needed investments in programs, services, infrastructure and the workforce to create an environment of excellence.

- Continually Optimize the Organization

The City must embrace continual optimization as a means of maximizing efficiencies and improving service delivery, allowing the City to provide the core services required to meet the ever changing needs of the diverse community we serve.

- Utilize Performance Management

The entire organization must implement and embrace the principles of Performance Management. Services must be delivered and service delivery modified with a focus on results. Use of performance information, as the basis for planning, budgeting and reporting will enhance accountability throughout the organization and eventually modify service delivery approaches and resource allocations to improve service results.

The FY 06 Proposed Budget is a reflection of these basic tenets.

II. Background

In an effort to institutionalize this direction and establish a shared vision, the City Council has provided a comprehensive set of annual goals for the City:

- Further reduce crime, particularly violent crime
- Enhance neighborhood economic development efforts, particularly on the commercial corridors
- Improve environmental conditions in the City of Long Beach
- Improve the quality of life in the neighborhoods
- Expand the community's involvement in the workings of Long Beach government
- Promote workforce and business development efforts so as to create new jobs; ensure Long Beach becomes more business friendly
- Support programs which encourage the public's health and well being
- Promote quality housing development; improve home ownership opportunities for Long Beach residents
- Improve the transportation system to efficiently and effectively move goods and people through the city without negatively impacting the neighborhoods
- Adopt an annual budget that is structurally balanced

The City Council also adopted a set of Financial Policies to govern the City's complex budgetary and fiscal decision-making on a go-forward basis. These policies address such key issues as the appropriate use of one-time revenue, debt limits, structurally balanced budgets, financial reporting and reserve levels. Such policies provide a sound management and decision-making framework, which will protect our financial assets and ensure a high level of transparency in the City's budgetary and financial processes. Staff has been working with the City Council's outside financial advisor, Len Wood, to develop a sound set of procedures by which to implement the City Council's Adopted Financial Policies. With these policies and procedures, guidelines are in place for future financial decisions to secure the fiscal health of the City for future generations.

III. Adhering to the Plan's Objectives

The City continues significant progress in its effort to reduce its structural deficit, as has been evidenced over the past two years through strategic cost reductions and revenue increases. Approximately \$74 million in structural budget solutions have been approved by the City Council to date, and all have been achieved with the exception of about \$4 million in savings in the current fiscal year. These reductions have been made in all

areas of the organization, through reductions in administration, management, staffing, equipment and supplies, optimization efforts and through the reduction in services to the community. Both employees and the community alike have shared in the impacts of the Plan's solutions. Employees have taken on increased workloads and have begun to make contributions to the cost of their benefits. The community, of course, has felt the impacts of the Plan through longer customer service response times, decreased library hours (by 20 percent) and recreation services, delayed street maintenance services, increased charges for services and curtailed funding to community service and art organizations.

Looking to FY 06, there remains approximately \$32 million in structural deficit to solve. Given the need to address overdue public safety compensation and critical infrastructure repair needs, I am recommending that a fourth year of the Plan be added. This proposed budget still resolves approximately \$22 million of the structural deficit through further staffing reductions, optimization savings, program reductions and revenue solutions, and leaves approximately \$10 million in structural reduction to solve in FY 07. Adding a fourth year to the Plan will allow the City to utilize natural revenue growth to address the compensation issue and make modest investment in critical street and facility maintenance costs. The following sections describe how the FY 06 Proposed General Fund Budget adheres to the Plan's objectives of addressing the City's General Fund structural deficit, addressing natural cost growth, making critical investments and implementing Plan reductions.

FY 06 Budget

The total City budget for all funds is estimated to be approximately \$2.04 billion (including \$362.4 million in the General Fund) in FY 06. Most of these monies are from restricted sources or are associated with enterprise operations (e.g., Harbor, Water and Airport). The City maximizes legal charges and recovers appropriate costs for General Fund services that benefit other funds. With increased costs for citywide goods and services, gasoline and electricity, water and natural gas, retirement benefits and general liability insurance, as well as increased activity at the Port, the City's overall budget has increased by approximately \$197.1 million from FY 05, even after reductions to the General Fund.

General Fund Budget

The FY 06 Proposed General Fund Budget is balanced. The Proposed General Fund Budget, which has been the focus of our structural deficit reduction efforts, is down to approximately \$362.4 million. The fund has a projected FY 06 beginning fund balance of \$6.4 million, generated through the tireless efforts of everyone to hold positions vacant and to save where possible, as well as receipt of unexpected one-time oil revenue and land sale proceeds in FY 05. In addition to the carry-over and \$22.5 million in structural deficit solutions, the FY 06 Proposed Budget utilizes approximately \$10.4 million in one-time resources. It is the use of available one-time resources that will allow the City to extend the Plan by one year to avoid deeper service reductions, and to utilize natural revenue growth to make critical investments in public safety and infrastructure. One-time resources proposed for FY 06 include proceeds from the Sale

of Property and Federal Emergency Management Agency (FEMA) Disaster Reimbursements.

I am very pleased to once again report a further reduction in use of one-time funds (from \$43.0 million in FY 03 down to \$10.4 million in FY 06 Proposed), which is a significant step toward fulfilling the City Council's Financial Policies. To reinforce a strong foundation for the future, it is also recommended that the General Fund's Operating Reserve continue its gradual growth, placing another \$200,000 into the reserve in FY 06. This brings the total funding in the Operating Reserve to \$600,000. In addition, the emergency reserve of \$36.1 million is fully funded at a value of 10 percent of the General Fund's recurring operating expenditures. The discussion that follows highlights some of the more significant cost and revenue changes impacting the FY 06 Proposed Budget, including base budget and proposed cost reductions and fee increases.

Base Budget Changes

The expenditure budget comprises tens of thousands of line item expenditures across all City departments. The following briefly describes the more significant changes to the base budget, which include increases due to previously negotiated or contractually mandated costs. These costs increased the General Fund budget prior to implementing Plan reductions. The cost increases total \$12.6 million and incorporate such items as retirement benefits and general liability insurance costs, public safety equipment, fuel and energy costs, and ongoing costs associated with expiring grants and increased contract payments.

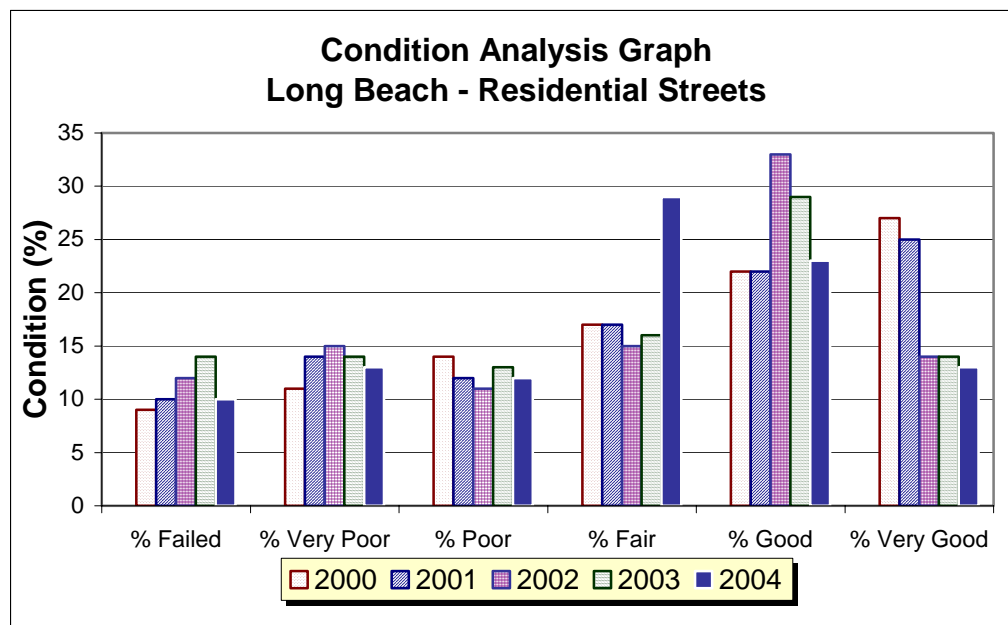
The increases are partially offset by various cost reductions, such as reduced debt service, savings in Civic Center rent, indirect cost allocation adjustments and increased base revenues. Please refer to **Attachment A** for a comprehensive list of Uncontrollable and Negotiated Cost Increases, with associated offsets, for the General and other funds.

Proposed Structural Budget Changes

The City Council's goals and budget policies provide clear direction to solve the structural deficit while being responsive to making responsible investments in core services, such as public safety and infrastructure. While we have to be steadfast while implementing Plan related program and service reductions, the Plan has always contemplated the need to be responsive to emerging community priorities.

Community input has made clear that a significant investment is desperately needed for our deteriorating streets. Exhibit 1 below illustrates the condition of our residential streets, as determined by an assessment conducted by the Department of Public Works, demonstrating the extent to which immediate and focused investment in this area is needed. The historic storms, experienced in January and February 2005 only exacerbated the problem. Therefore, included in the FY 06 Proposed Budget is \$5 million in funding for critical street repairs, composed of \$2.1 million in Proposition 42 monies, \$1.5 million in Gas Tax funds and \$1.4 million in General Fund resources.

Exhibit 1: Condition of Long Beach Residential Streets



Investment to address overdue public safety compensation and staffing issues is also required as sworn police and fire personnel have not received salary increases since 2001. Compensation studies show that our Police Officers have fallen to the lowest paid of the top ten cities in California. If we are to retain a quality work force in the future we must begin to address compensation of our employees. To address this issue, the FY 06 Proposed Budget allocates funding for negotiated compensation increases and provides support for 15 new patrol officers through a combination of the COPS Grant program and revenue growth, which will buttress public safety and homeland security efforts.

Despite significant Plan reductions proposed for FY 06, the City continues to support, and in some cases enhance, critical funding needs. In addition to the public safety and street repair investments noted above, funding for sidewalk repair and Americans with Disabilities Act (ADA) improvement projects and needed natural gas pipeline replacement will be provided. Furthermore, efforts to enhance neighborhoods will continue through enhanced graffiti and litter abatement programs as well as strengthened planning functions in the Department of Planning and Building. The FY 06 Proposed Budget ensures the community will continue to receive excellent police and fire protection, recreation services, municipal health, traffic, refuse and many other core services.

Proposed Expenditures

Implementation of Year Three of the Plan results in a proposed \$16.3 million reduction in the FY 06 operating budgets for City Manager-directed departments, with \$14.3 million of those cuts achieved in the General Fund and the balance of \$2 million in the related funds (i.e., Gas Fund, Towing Fund, Employee Benefits Fund, Insurance Fund, Civic Center Fund, Fleet Fund and General Services Fund). Reductions in related funds directly and indirectly benefit the General Fund.

Details of the \$16.3 million in General Fund and related fund-recommended reductions are included in the **Financial Strategic Plan** and the respective **Department Summaries** sections of the budget document. Several key reductions, however, are highlighted below:

- Close City Hall East
- Save 2 percent in Police civilian staffing budget
- Optimize Community Relations Division in Police Department
- Reduce materials, supplies and equipment citywide
- Reduce Employee Assistance Program administrative support
- Optimize employee health insurance program
- Optimize Advance Life Support billing and implement Basic Life Support program
- Close Main Library and North Branch one additional day per week
- Reduce Nature Center one additional day per week going from 6 to 5 days per week
- Eliminate North and Freeman PAL programs and DARE program
- Develop corporate sponsorship for Municipal Band

Given the state of the General Fund, a limited number of enhancements are proposed, which focus on the need for increased public safety and other critical quality of life services for the community. General Fund enhancements recommended for FY 06, less offsetting cost reductions or associated revenue, total \$3.3 million. The following are examples of some of the more significant enhancements. Please refer to **Attachment B** for a comprehensive list of enhancements, with associated offsets, for the General Fund and other funds.

- Fifteen additional Police Officers to support Community Oriented Public Safety, with ten funded through the federal COPS grant program
- Additional street repairs
- Additional staff in Planning and Building's Construction Regulation Division, Advanced/Environmental Planning and the Development Services Center Help Desk to keep pace with development activities
- Expanded Litter Abatement and graffiti abatement programs
- Implement Gateway Signage program

Another significant increase for FY 06 will be for police salary increases, which at the time of this publication were yet to be brought to the City Council for approval. Expected to cost approximately \$3.5 million, specific details will not be available until later in the Budget Adoption process, and will be reflected in the FY 06 Adopted Budget book.

Projected Revenue

The General Fund depends on hundreds of different revenue sources to fund operations. Taxes, fees for service, citation and regulatory fines, grants, transfers from other funds and proceeds from land sales all provide the resources through which the City provides General Fund services. **Attachment C** lists the 40 largest General Fund revenue sources, which currently comprise approximately 87 percent of General Fund revenues. General Fund revenue overall is projected to be stable and slightly improving, and is estimated to be \$355.8 million for FY 06.

Given the strong performance of key revenue sources, combined with the end of the Utility User Tax rate reduction, the City will for the first time in several years experience net revenue growth from the previous year. FY 06 projections show growth in Property Tax revenue of \$1.3 million, Pipeline Franchise Fees of \$802,000, Emergency Ambulance Fees of \$2.7 million (includes new Basic Life Support ambulance program) and Transient Occupancy Tax of \$950,000, as well as \$2.7 million of various other revenue sources as identified in the Plan for FY 06.

The FY 06 Proposed Budget anticipates an increase of approximately \$3.8 million in the return on City assets. Examples of anticipated return on assets in FY 06 include, but are not limited to, the following: Additional Pipeline Permit Fee revenue and demand-driven towing and lien sales activity (see the **Financial Strategic Plan** section of the budget document for a more detailed listing).

Increases to new and existing General Fund fees, expected to total \$2.4 million, are also necessary to avoid additional harmful cuts to core services. Proposed changes to fees are in line with comparable agencies, and are necessary to help the City recover costs for the provision of these services. A number of fees will be presented to the City Council for approval on August 2, 2005, based upon the recommendations from Phase One of the citywide Fee Study with the goal of increasing the recovery of costs to provide services. The completion of Phase One focused on identifying gaps between revenues and expenses in the City's planning, code enforcement, fire prevention and environmental health services. Phase Two of the project is in process and includes many of the remaining fee-for-service areas, and will be completed by the end of 2005. It is anticipated that general policy discussion will be held to gain consensus on the level at which specific services should be subsidized. Please see **Attachment D** for a comprehensive listing of proposed fee increases in the General Fund and other funds (excluding those fee increases presented on August 2, 2005).

You may note that despite positive growth in base revenue, new fees and other resources, the total estimated General Fund revenue has decreased compared to the FY 05 budgeted revenue of \$363.5 million. This reduction is due primarily to shifting restricted and non-General Funded programs to other funds (e.g., Proposition 172 overtime funding). In an effort to streamline the General Fund budget going forward, charges for services provided in the Tidelands area (namely Fire and Police services in the Harbor) and utility billing and collection services will be directly billed from, and paid into, the Tidelands and Gas Fund, respectively. Given that both the revenue and expense for these services were transferred out of the General Fund in equal portions, there is no net impact to the General Fund balance.

IV. Other Funds

While the focus of this Budget Message has been on the General Fund, it is important to discuss issues impacting other key City funds, including the Health Fund, Community Development Grants Fund (specifically, Community Development Block Grant funding) and Tidelands Funds. During these times of gradual economic recovery and shifting priorities at the State and Federal levels, the City is susceptible to sharply changing revenue sources, especially in those programs funded heavily, if not exclusively, through grants from other levels of government.

Health Fund

FY 06 will be yet another challenging year for the Department of Health and Human Services regarding services provided through the Health Fund. This grant-reliant fund supports the following core public health services: Children, Adult and Senior Health Services; Disease Prevention and Control; Homeless Services; Environmental Inspection and Testing; and Vector Control. Given this broad range of services, it is important for the City to maintain our own health department, as it allows us to tailor programs to meet the specific needs of Long Beach residents while minimizing reliance on Los Angeles County's already overtaxed and deteriorating health system.

With reductions in grant funding, coupled with delays in State reimbursements, the Health Fund faces a cash-flow challenge of approximately \$1.7 million in FY 06. To avoid spending beyond their means, the Department has recommended cost reductions and revenue enhancements to balance its budget, including:

- Maximizing Grant-seeking Opportunities
- Eliminating Vacant Positions and Reducing Administrative Costs
- Increasing Fees to Improve Cost Recovery

With these key strategies built into their FY 06 Proposed Budget, despite these challenges, the Department will continue to successfully deliver core services that promote the improved health of the community.

Community Development Grants

One of the key revenue sources for the City to support our extensive ADA, sidewalks, recreation and other neighborhood programs in the most underserved areas of the City is Community Development Block Grant (CDBG) funding from the federal government. Earlier in the calendar year, it appeared that the City was facing a reduction in new CDBG funding for FY 06 based upon the President's proposed new "Strengthening America's Communities Initiative," which would have combined CDBG with a number of other grants into one new program. This potential reduction would have decimated the City's CDBG programs, or would have required General Fund resources to replace lost CDBG funds, which would have exacerbated the structural deficit and required further General Fund reductions.

Fortunately, the Senate ensured that CDBG funding would be protected and maintained at current funding levels for the federal government's FY 06. While CDBG will not be reduced in FY 06, it is still a target for next year. Therefore efforts to monitor the situation and protect the City's interests in Washington, D.C., will be increased over the next several months.

Tidelands Funds

The Tidelands Funds support the operating, maintenance and development of the Tidelands Trust area, including the beaches and waterways, marinas, Convention Center, Pike at Rainbow Harbor area and the Aquarium of the Pacific, in addition to the

Queen Mary and Hyatt Hotel leases. Resources to support services provided in the Tidelands area are dependent on continued support from the Tidelands Oil Revenue Fund (TORF) and the Harbor Fund. State law provides for the transfer of certain TORF profits to the Tidelands Funds, and given the continued high price of oil, TORF has provided substantial funding for Tidelands Funds over the past few years. The Tidelands Funds have experienced fiscal problems since the late 1980's, when the State began taking most of the oil profits that once paid for Tidelands operations and maintenance.

With the anticipated transfer from the Harbor Department, combined with strong performance within the oil operations, the Tidelands Funds will be balanced in FY 06. The historic price of oil, however, is not at sustainable levels; therefore steps must be taken in the next two years to make structural changes in the Tidelands Funds to ensure their long-term balance and viability. To this end, departments operating within the Tidelands areas (Parks, Recreation and Marine, Police and Fire) identified appropriate cost reductions and revenue enhancements totaling approximately \$500,000 for FY 06, to make early gains toward restoring a structural balance within the Tidelands Funds. These reductions will be made in the areas of dredge operations, maintenance, supplies and support staffing; with increased fees impacting the Junior Lifeguard program, the Belmont Pool and Tidelands recreation classes.

V. Optimization

As a primary goal of the Financial Strategic Plan to reduce costs citywide, a number of optimization efforts have commenced over the past two years and continue to be a basic operational tenet of the organization. Several successful efforts have demonstrated the benefits of improved service delivery and cost savings for the City, and have paved the way for ongoing and future efforts that will take place throughout the organization.

Past efforts such as the Code Enforcement, Fleet Operations, Fire Services and Workers' Compensation optimization studies have delivered exceptional short-term results, and hold the promise of additional long-term financial and service delivery improvement for participating departments.

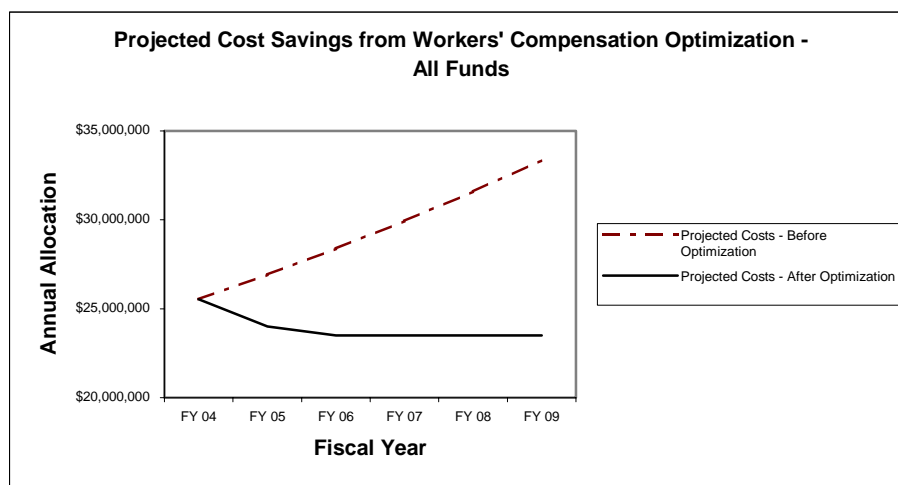
Under the leadership of the Department of Community Development, Code Enforcement inspectors are now being deployed in geographic sectors, with individual teams assigned to specific neighborhoods and areas of the City. This redeployment strategy has generated savings by eliminating redundancies, streamlining the processing of code issues and increasing accountability through clearer lines of supervision and coordination. In addition, the City expanded its services through the inclusion of funding from the Redevelopment Agency and Community Development Block Grants. Lastly, an administrative citation program was initiated, generating additional resources in the short-term, and increasing compliance with critical housing, commercial and residential codes going forward.

The Fire Services study, presented to the City Council in February 2005, generated several opportunities for short-term and long-term fiscal solutions without impacting core

fire prevention and suppression services. The optimization study recommended that the Department implement a Basic Life Support ambulance transportation program, bringing in-house a service that is currently delivered using an outside contractor. This new City program will significantly improve the coordination among the City's emergency dispatch, Advanced Life Support paramedic services and the Basic Life Support ambulance services and generate revenue to support emergency services.

The Workers' Compensation optimization process, completed in 2004, has been a resounding success. In a two-year period (FY 05 and FY 06), through process improvements associated with reporting, the provision of medical services and data management, the City has reduced its direct costs by \$2 million annually citywide (and \$1.3 million in the General Fund) while improving services to injured workers.

Exhibit 2: Projected Savings from Workers' Compensation Optimization Effort



Workers' Compensation had become one of the largest sources of increasing cost growth for the City prior to FY 05. To determine savings to the City after the implementation of the Deloitte Study, a cost avoidance analysis was completed. Projected costs for all departments prior to the optimization study were compared to projected costs after optimization. In a two-year period (FY 05 and FY 06), cost avoidance amounted to a \$4.9 million savings citywide (and \$3.2 million in the General Fund). The chart above demonstrates the impacts of the Workers' Compensation optimization on the City's projected citywide costs to provide this service.

Employee-driven reviews of the City's Towing, Reprographics, Ambulance Billing, and Crossing Guard Operations were initiated in FY 05 and will result in recommendations for service improvements. Optimization will continue to be integrated throughout the organization in FY 06. Efforts to review the City's employee health insurance program, youth services, technology and data services, parking management, Fleet operation's parts room and custodial services were also initiated in Fiscal Year 2005 and will be completed in FY 06. Beyond FY 06, additional internal optimization efforts will be undertaken when appropriate to generate opportunities for cost savings and improved services.

VI. Focus on Results – FOR Long Beach

Performance Management is the most significant change-management effort undertaken by the City. This process integrates planning, resource allocation and reporting based strictly upon the current and expected performance of the programs we provide, and represents a fundamental change in the way the City functions. Employees throughout the organization, from the City Manager's Office to the police officers and repair crews keeping our streets safe, will be aligned around the strategic goals of the community while maintaining an overarching focus on the results provided on a daily basis.

One of the most recent outcomes of our Performance Management efforts is the Performance-based Program Budget that you are reading. There has been a dramatic change in the format of the individual Department chapters. Each department now communicates its service delivery challenges, as well as its objectives and opportunities for the future; each demonstrates the myriad programs and services it provides, and expected performance through the new Line of Business and Program Structure. While departments are currently going through the Strategic Business Planning Process and developing a complete set of performance measures for each program, this budget has attempted to break expenditures down to the program level and present some basic output measures. As business plans are developed in the coming year, each department will develop a set of issues, objectives and performance measures to evaluate the effectiveness of City services in meeting community needs.

Please see the **Focus on Results – FOR Long Beach** section for a complete discussion of performance management initiatives underway, and for a better understanding of how this effort will improve transparency and accountability throughout the organization, the reporting of results from all City programs, and the allocation of resources toward the priority and high performing programs and services.

VII. Beyond FY 06

As we take a moment to reflect on where we have come as an organization over the past two years, culminating in the FY 06 Proposed Budget, I believe there have been many fundamental changes in which the community and every City employee can be proud. Approximately 22 months ago, the City faced a \$102 million budget crisis that threatened to undermine the City's ability to provide even the most essential public services. Under the leadership of the Mayor and City Council, we have united to eliminate approximately \$92 million of the structural deficit by the end of FY 06.

Such remarkable progress and fiscal discipline have not come without pain. The City has made unprecedented steps to downsize the organization to better live within its means, all the while optimizing the way in which services are delivered to maximize efficiencies and ensure the effectiveness of core programs and services provided to the community. Lastly, the community has felt the loss of traditional services that they have grown accustomed to, and levels of service that they may have formerly taken for granted. Through the contributions of many, core public safety, environmental and neighborhood services have been maintained with the uncompromising quality expected by the community.

City Manager's Budget Message
Fiscal Year 2006

Great strides will continue to be made toward making Long Beach a cleaner and safer city, moving toward fiscal sustainability and providing an environment in which all residents can feel secure and have access to quality services. The investments being made in critical street and facility repairs, as well as the support provided to our public safety employees, are just two steps in a continual series of necessary investments in core services that our fiscal discipline and returning base revenues will allow. It is important to note that had we not made these critical investments in FY 06, we would have been able to eliminate the structural deficit in FY 06 as originally planned.

As we look beyond 2006, we know that much work remains to be done before realizing the final objectives of the Financial Strategic Plan. With one year of the Plan remaining, it is anticipated that we can utilize natural revenue growth to continue to address overdue employee compensation issues and enhance our commitment to the City's infrastructure, while making the necessary reductions to costs and services to achieve a structurally balanced budget. No duty is held with higher sanctity than our charge to maintain the public's trust in our stewardship of the community's resources. I feel that the progress made in this very short period of reform demonstrates this commitment, and future decisions, including the FY 06 Proposed Budget, will reinforce this fundamental belief.

Sincerely,



Gerald R. Miller
City Manager

Attachment A:	Uncontrollable and Negotiated Cost Increases
Attachment B:	Proposed Enhancements
Attachment C:	General Fund Revenues (Top 40)
Attachment D:	Proposed FY 06 Fee Adjustments by Department



Uncontrollable and Negotiated Cost Increases

Description	Fund	One-Time Cost	Cost	Offset	Offset Description
CITY CLERK					
▪ FY 06 Election Costs	General	✓	\$1,303,000		
CITY MANAGER					
▪ Increase for Long Beach Area Convention and Visitors Bureau Contract	Special Advertising		\$201,366		
LONG BEACH ENERGY					
▪ Cost of Natural Gas	Gas	✓	\$15,000,000	(\$15,000,000)	Revenue
▪ Plume Mitigation	SERRF		\$3,000,000		
▪ SERRF Operation and Maintenance Fees	SERRF		\$1,500,000		
FINANCIAL MANAGEMENT					
▪ Postage Costs	General / Enterprise		\$74,905	(\$52,205)	Revenue
▪ Bank Service Fees	General		\$35,000	(\$35,000)	Revenue
PLANNING AND BUILDING					
▪ Add Per Diem Skill Pay to Construction Regulation staff	General		\$18,742		
PARKS, RECREATION AND MARINE					
▪ Maintenance of New Mini Park and Open Space Areas	General		\$52,500		
▪ CPI Increases for Maintenance and Landscaping Contracts	Various		\$274,347		
▪ Auto Allowance Correction	Various		\$37,604		
POLICE					
▪ Lease Costs	General		\$120,000		
PUBLIC WORKS					
▪ CPI Increase Maintenance Contract for Street Lights	General		\$205,605		
▪ Purchase Residential Refuse and Recycling Carts	Refuse		\$985,000	(\$80,857)	Revenue
▪ Annual Recycling Contractor CPI Increase	Refuse		\$87,646	(\$87,646)	Revenue
▪ Annual SERRF Tip Fee Increase	Refuse		\$479,099	(\$479,099)	Revenue
▪ Underground Storage Tank Mandate and LNG Fueling Program	Fleet		\$307,575	(\$77,885)	Revenue
▪ Fuel Commodity Increase for Citywide Fleet	Fleet		\$2,400,000	(\$2,400,000)	Revenue
▪ State Payment from Lien Sales	Towing		\$250,000	(\$250,000)	Revenue
▪ Water Department Land Rent for Towing Facility	Towing		\$15,135		
TECHNOLOGY SERVICES					
▪ PC Debt Service	General Services		\$310,000	(\$310,000)	Cost Reduction
TOTAL			\$26,657,524	(\$18,462,692)	

Proposed Enhancements

Description	Fund	One-Time Cost	Cost	Offset	Offset Description
COMMUNITY DEVELOPMENT					
▪ City Development Project Coordinator	General		\$90,000	(\$90,000)	Revenue
▪ Increased Rent for Code Enforcement Relocation	General		\$288,683		
▪ Community Development Analyst III	Redevelopment		\$85,463		
▪ Secretary to the Redevelopment Agency Board	Redevelopment		\$76,350		
LONG BEACH ENERGY					
▪ Purchase of Gas Meters and Regulators	Gas		\$100,000	(\$100,000)	Revenue
▪ Add Engineering Tech II	Gas		\$66,180	(\$66,180)	Revenue
FIRE					
▪ Add a Safety Specialist II Position	General		\$93,814	(\$93,814)	Cost Reduction
FINANCIAL MANAGEMENT					
▪ Replace Parking Citation Issuing Devices	General	✓	\$150,000		
▪ Predictive Dialing System	Enterprise	✓	\$79,610		
HEALTH AND HUMAN RESOURCES					
▪ Increased Vector Control Staffing	Health		\$54,329		
▪ Restoration of Animal Shelter Staffing	General		\$99,398	(\$99,398)	Grant Funded
▪ Restoration of Public Health Physician in Occupational Health	Insurance		\$72,797		
HUMAN RESOURCES					
▪ Upgrade Two Personnel Analyst II - Confidential to Personnel Analyst III - Confidential	Employee Benefits		\$13,090		
▪ Addition of Human Resources Officer (Workers Compensation Coordination) per WC Study	Insurance		\$110,750		
▪ Enhancement for Library of Essential Function Job Analyses per WC Study and WC Employees Survey Costs	Insurance		\$8,325		
LIBRARY					
▪ Family Learning Center Program Supported by Library Foundation	Grants		\$444,273	(\$444,273)	Grant Funded

Proposed Enhancements

Description	Fund	One-Time Cost	Cost	Offset	Offset Description
<i>PLANNING AND BUILDING</i>					
▪ Add a Planning Aide Position in the Zoning Division	General		\$66,976	(\$66,976)	Revenue
▪ Add a Planner III to the Help Desk	General		\$96,600		
▪ Add Permanent Part Time Staff in Advanced/Environmental Planning	General		\$66,000		
▪ Budget 30% share of the Urban Design Officer	General		\$37,200		
▪ Add three Clerk Typist III in the Development Services Center	General		\$185,222		
▪ Add three Combination Building Inspectors to the Construction Regulation Program	General		\$328,065	(\$150,000)	Revenue
▪ Add one Civil Engineer and Plan Checker-Electrical to the Construction Regulation Program	General		\$209,104	(\$140,000)	Revenue
▪ Upgrade of an Administrative Analyst I	General		\$4,000		
<i>POLICE</i>					
▪ 15 Additional Police Officers	General / General Grants		\$1,175,443	(\$517,900)	Grant Funded
<i>PARKS, RECREATION AND MARINE</i>					
▪ Admin Analyst II for Contract Management & Revenue Development Division	General		\$79,956	(\$20,000)	Revenue
▪ Special Events & Filming - City-Sponsored Parades	General / Special Advertising & Promotion		\$71,000	(\$71,000)	Revenue
▪ Special Events and Filming – Part-Time Staff as Needed	Special Advertising & Promotion		\$49,202	(\$49,202)	Revenue

Proposed Enhancements

Description	Fund	One-Time Cost	Cost	Offset	Offset Description
<i>PUBLIC WORKS</i>					
▪ Airport Public Affairs Asst.	Airport		\$78,001		
▪ Community Service / Litter Abatement	Refuse		\$733,830	(\$449,917)	Revenue
▪ Fire Pumper Debt Service	Fleet		\$200,000	(\$200,000)	Revenue
▪ Add Clerical Support for Worker's Compensation Compliance	Airport/ Refuse / Fleet		\$56,868		
▪ Upgrade Engineering Aide III Position to Traffic Engineer Associate I	Transportation		\$25,217		
▪ Upgrade Clerk Typist III Position to Clerk Typist IV	General/ Transportation		\$5,942		
▪ Reallocate Fleet Services Bureau Overhead to Divisions	Towing		\$75,000		
▪ Towing Postage	Towing		\$17,000	(\$17,000)	Cost Reduction
▪ Expand Anti-Graffiti Removal Program to Remove 85% Reported within 48 Hours	General		\$50,000		
<i>TOTAL</i>			\$5,443,688	(\$2,575,660)	

General Fund Revenues

TOP 40 GENERAL FUND REVENUES	FY 03 ACTUALS	FY 04 ACTUALS	FY 05 ADJ BUD	FY 05 ETC	FY 06 PROP
SECURED REAL PROPERTY TAXES	\$48,642,542	\$52,254,309	\$56,700,000	\$54,500,000	\$58,015,000
CITY SALES AND USE TAX	42,345,525	39,784,896	32,325,000	35,555,000	36,700,000
PROPERTY TAX IN-LIEU OF VLF	-	-	18,100,000	20,914,142	22,500,000
TELEPHONE USERS TAX & PENALTIES	18,412,302	18,121,146	16,731,000	15,755,000	16,100,000
ELECTRIC USERS TAX & PENALTIES	23,426,752	18,574,083	16,153,000	16,090,150	16,500,150
PARKING CITATIONS	7,650,522	9,565,616	9,885,790	9,928,168	10,750,758
BUSINESS LICENSE TAXES	8,158,748	9,028,473	9,350,000	10,080,000	9,930,000
HARBOR-FIRE (1)	6,906,130	7,483,792	8,217,744	8,217,744	-
VLF GAP BACKFILL LOAN (2)	-	-	8,155,998	8,158,433	-
IN-LIEU SALES AND USE TAX	-	-	8,064,680	9,981,675	11,038,000
PIPE LINE FRANCHISES	7,091,421	6,389,949	7,325,000	7,256,000	8,127,000
TRANSIENT OCCUPANCY TAX	6,566,720	7,044,122	7,200,000	7,648,000	8,150,000
ELECTRIC COMPANY FRANCHISES	6,271,788	5,569,740	5,600,000	5,525,000	5,600,000
EMERGENCY AMBULANCE FEES	4,027,071	4,354,236	5,546,000	5,303,410	8,240,000
GAS USERS TAX & PENALTIES	5,540,557	5,360,400	4,618,000	5,052,000	5,700,000
AMERICAN GOLF LEASE	3,683,520	2,942,627	4,344,465	3,525,686	4,100,000
PROP 172 FUNDS (SB509) (3)	3,567,270	3,873,447	3,793,000	4,181,000	-
MOTOR VEHICLE IN LIEU TAX	22,487,884	20,963,264	3,700,000	2,578,000	2,750,000
CIP-ENGINEERING CHARGES	3,689,635	3,368,016	3,689,371	2,725,000	3,105,000
AIRPORT-FIRE	2,640,783	3,331,826	3,609,142	3,609,142	3,609,142
GAS-BILLING & COLLECTION SERVICES (4)	3,891,241	3,945,157	3,603,174	3,603,174	-
PIPELINE FEE - WATER	-	2,499,184	3,345,494	3,345,494	4,733,865
VEHICLE CODE FINES	3,010,748	3,663,079	3,300,000	2,799,600	3,300,000
LAND,BLDG,R/W,EASEMENT,APT RENTALS	3,761,019	3,527,760	3,214,873	3,234,456	3,208,372
INTEREST-POOLED CASH	4,552,127	3,387,228	3,175,000	3,192,912	3,250,000
LOAN REPAYMENT	50,000	1,000,000	3,132,891	3,175,800	500,483
WATER USERS TAX & PENALTIES	3,583,054	3,358,451	2,993,000	2,855,000	3,000,000
CHARGES FOR SPECIAL SERVICES	1,641,034	2,834,020	2,974,840	2,895,149	2,974,840
UNSECURED PERSONAL PROPERTY TAXES	2,540,349	2,428,310	2,900,000	1,930,000	2,000,000
OTHER DEPT SVCS TO PROPRIETARY FUNDS	2,482,701	2,271,391	2,488,127	2,215,857	2,518,582
OIL PRODUCTION TAX	2,243,394	2,247,267	2,240,000	2,125,000	2,240,000
WATER-BILLING & COLLECTION (4)	2,389,795	2,423,128	2,215,610	2,215,610	-
OTHER DEPT CHGS TO GOV'TL FUNDS	2,339,459	2,136,529	2,136,201	2,083,080	2,175,227
REAL PROPERTY TRANSFER TAX	1,686,109	2,288,974	2,000,000	2,200,000	2,300,000
PIPELINE SAFETY FEES	1,883,572	1,961,994	1,880,000	2,015,197	2,080,000
MISC REFUNDS & REIMB	1,564,797	1,953,254	1,820,017	2,553,861	2,818,696
BUILDING PLAN CHECK FEES	1,818,191	2,089,003	1,765,000	1,970,000	2,000,000
HARBOR-POLICE	1,284,914	1,393,522	1,729,256	2,372,392	1,729,256
REFUSE-BILLING & COLLECTION (4)	1,616,925	1,648,534	1,702,161	1,702,161	-
TRANSFERS FROM OTHER FUNDS	50,962,264	47,326,572	45,178,464	45,436,477	35,172,671
 SUBTOTAL TO 40 GENERAL FUND REVENUES	 \$314,410,860	 \$312,393,298	 \$326,902,298	 \$330,504,769	 \$306,917,042
 SUBTOTAL ALL OTHER REVENUES	 \$52,439,388	 \$54,587,405	 \$36,913,874	 \$42,149,687	 \$48,879,241
 TOTAL (5)	 \$366,850,248	 \$366,980,703	 \$363,816,173	 \$372,654,456	 \$355,796,283

(1) This program's revenue and expenditures were moved to the Tidelands Fund.

(2) The VLF Gap Backfill loan was a one-time revenue in FY 05.

(3) Reflects the direct deposit of all Proposition 172 funds and expenses into the General Grants Fund

(4) The utility billing and collection-related expenditures and revenues were moved into the Gas Fund.

(5) Despite natural growth in key General Fund revenue for FY 06, an overall General Fund revenue reduction is attributed to Proposition 172 funds and reimbursements for Tidelands, utility billing and collection services no longer passing through the General Fund as noted above.

Summary of Key Proposed FY 06 Fee Adjustments By Department

FEE DESCRIPTION	FUND	ANNUAL REVENUE
FINANCIAL MANAGEMENT		
<ul style="list-style-type: none"> Credit card bank fee: \$3.00 (New) Collection agency bad debt fee - tiered structure (New) 1.25 percent late fee on various delinquent accounts (New) Remote pay station fee: \$1.00 (New) Interest on past due Transient Occupancy Tax (TOT) accounts Meter reading fees for offcycle and re-reads: \$15.00 (New) Utility account research fee: \$35 (New) 	General	372,714
	General	\$60,000
	General	\$80,000
	General	\$175,000
	General	\$1,000
	General	\$5,000
	General	\$1,000
Transient Occupancy Tax Administrative Fees (New)		
<ul style="list-style-type: none"> Application fee for tax clearance certificate: \$ 25 Deposit for TOT audit charges (Tax Clearance Certificate): \$500 Cost of audit for TOT tax clearance: \$100 per hour Cost of audit for TOT underpayments: \$100 per hour 	General	TBD
	General	TBD
	General	TBD
	General	TBD
TOTAL		\$694,714
FIRE		
<ul style="list-style-type: none"> Junior Lifeguard Program: \$260 to \$330 per person 	Tidelands	\$30,000
LIBRARY SERVICES		
<ul style="list-style-type: none"> Book/material on-hold: \$1 per item (New) Faxing fee: \$1 per page (New) Document scanning: \$1 per page (New) Extended use of laptop: \$5 each 1/2 hour (New) Replacement of laptop fee: \$1,500 per unit to replace if lost (New) Extended use of leap pad: \$5 per day (New) Replacement of leap pad: \$15 per adapter; \$20 per backpack; \$25 per headphone; \$65 per leap pad unit (New) Color copy printing: \$0.30 to \$0.50 per page Research request fee: \$30 per hour to \$50 per hour Video cassette or DVD fee: \$1.08-\$2.17 to \$1.08-\$3.25 Returned check fee: \$15 to \$30 Obituary: \$10 to \$15 per search Replacement of adult library card: \$1 to \$5 after 6th replacement Auditorium rental during library hours: \$70 to \$100 Auditorium rental non-library hours: \$100 to \$150 Meeting room rental: \$35-\$65 to \$50-\$80 Auditorium lobby rental: \$25-\$85 to \$50-\$100 Technical assistance: \$30 to \$40 per hour Scanned/Digital photo: \$25 per image (New) 	General	\$3,000
	General	\$200
	General	\$200
	General	\$200
	General	\$1,500
	General	\$200
	General	\$340
	General	\$500
	General	\$200
	General	\$500
	General	\$200
	General	\$500
	General	\$200
	General	\$500
	General	\$200
	General	\$500
	General	\$800
	General	\$500
	General	\$280
	General	\$800
TOTAL		\$10,620
LONG BEACH ENERGY		
<ul style="list-style-type: none"> Gas reconnection fee: \$35 to \$50 for non payment of bills 	Gas	\$174,000

Summary of Key Proposed FY 06 Fee Adjustments By Department

[illegible]

Summary of Key Proposed FY 06 Fee Adjustments By Department

[illegible]

Summary of Key Proposed FY 06 Fee Adjustments By Department

FEE DESCRIPTION	FUND	ANNUAL REVENUE
PUBLIC WORKS		
Miscellaneous		
▪ Pipeline permit fees: CPI increase	General	\$200,000
▪ Street sweeping parking citation: \$37 to \$39	General	\$300,000
▪ Field site review and/or Improvement Certification : \$125 to \$175	General	\$14,000
▪ Improvement Plan Review: \$375 per sheet to \$790 per sheet	General	\$20,335
▪ Resubmittal for 4th check: \$150 per sheet to \$790 per sheet	General	\$6,720
▪ Deed Processing - Dedications: \$250 to \$490	General	\$3,360
▪ Deed Processing - Easements: \$400 to \$825	General	\$1,785
▪ Excavations: 10 sq ft: \$70 to \$540	General	\$19,740
▪ Excavations: 100 sq ft: \$250 to \$540	General	\$4,060
▪ Temporary Street Parking - Construction Vehicles: \$24 to \$75	General	\$5,355
Towing Fees		
▪ Archived Files Research: \$60 to \$80	Towing	\$20
▪ Basic Rate Car Tow: \$100 to \$105	Towing	\$97,015
▪ Basic Rate Motorcycle Tow: \$70 to \$105	Towing	\$3,220
▪ Heavy Duty Tow: \$170 to \$185	Towing	\$2,438
▪ Car Storage: \$25 to \$26 per day	Towing	\$250,000
▪ Truck Storage: \$35 to \$36 per day	Towing	\$460
▪ Motorcycle storage: \$10 to \$15 per day	Towing	\$640
▪ Dollies: \$30 to \$35	Towing	\$28
▪ Drive Shaft: \$11 to \$25	Towing	\$2,050
▪ Drop Fee Light: \$25 to \$50	Towing	\$237,075
▪ Drop Fee Heavy: \$170 to \$185	Towing	\$70,725
▪ Police Release Fee Impound Agency: \$15 to \$30	Towing	\$9,125
▪ Police Release Unlicensed Driver: \$85 to \$100	Towing	\$14,600
▪ Flat Bed Tow Request: \$5 (New)	Towing	\$29,200
▪ Go-Jack Dolly recovery fee: \$10 (New)		
▪ Lock-Difficult Vehicle Lockout: \$20 (New)		
TOTAL		\$1,291,951
WATER		
▪ 4 percent general water rate increase	Water	\$2,055,533

All fee adjustments will be presented to the City Council for approval as part of the Budget Adoption process.

